

## Message Text

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12

ACTION EB-07

INFO OCT-01 EA-07 ISO-00 AID-05 L-03 IGA-01 OTP-01 CIAE-00

INR-07 NSAE-00 FTC-01 STR-04 TRSE-00 /037 W

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R 070619Z NOV 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 3748

USDOC WASHDC

C O N F I D E N T I A L SEOUL 8616

PASS AID/W

USDOC FOR OED AND T.Z. CORLESS, DIB, OFFICE OF TELECOMMUNICATIONS

E.O. 11652: GDS

TAGS: BEXP, EAID, ETEL, KS

SUBJECT: GTE - A CASE FOR THE USE OF SECTION 661 OF THE FAA

REFS: (A) SEOUL 6556 (B) STATE 120036 DATED JUNE 8, 1974

(C) SEOUL 3387 DATED 5/28/74 (D) STATE 232106

SUMMARY: SEOUL 6556 AND PREVIOUS MESSAGES (REF A) UNDER THE SUBJECT HEADING, QTE MAJOR PROJECTS - TELEPHONE CENTRALS FOR KOREA UNQTE, DESCRIBED THE PAST HISTORY OF VARIOUS ATTEMPTS BY U.S. VENDORS TO PENETRATE THE POTENTIAL MULTI-HUNDRED-MILLION DOLLAR MARKET IN KOREA FOR TELEPHONE CENTRALS, MOST RECENTLY BY GTE. REFS B AND C INVOLVED AN ABORTIVE EFFORT BY USAID/SEOUL AND AID/W ENGINEERING TO BRING IN A WESTERN ELECTRIC STUDY TEAM TO ASSIST THE MINISTRY OF COMMUNICATIONS IN DEVELOPING PLANNING AND EQUIPMENT SELECTION CRITERIA FOR TELEPHONE SYSTEM EXPANSION. THIS MESSAGE READDRESSES THAT NEED AND REQUESTS DISPATCH OF ONE OR TWO EXPERTS TO ASSIST THE ECONOMIC PLANNING BOARD (EPB) IN REACHING A POLICY DECISION. AS WE UNDERSTAND IT, THERE ARE TWO POLICY ALTERNATIVES, EITHER TO ACCEDE TO THE PRESENT MINISTRY OF COMMUNICATIONS PLAN FOR LOCALLY-PRODUCED EMD PLUS AND R&D EFFORT TO CREATE A KOREAN SECOND-GENERATION ELECTRONIC SWITCHING SYSTEM FROM SCRATCH

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VERSUS PURCHASING ESS OFF-THE-SHELF WHILE CARRYING ON A LONGER-

TERM RESEARCH EFFORT AIMED AT THIRD-GENERATION EQUIPMENT. WE BELIEVE KOREAN INTERESTS AS WELL AS U.S. EXPORT EXPANSION EFFORTS ARE BEST SERVED BY THE LATTER COURSE. END SUMMARY.

1. GTE HAS SUBMITTED TO THE ROKG A PROPOSAL TO INVEST IN A JOINT VENTURE WITH A KOREAN FIRM TO INSTALL A PLANT CAPABLE OF SUPPLYING ELECTRONIC SWITCHING EQUIPMENT NEEDED FOR THE PLANNED EXPANSION OF THE KOREAN TELEPHONE SYSTEM. SEE REF A FOR DETAILS.

2. THE MINISTER OF COMMUNICATION, HOWEVER, HAS ACCEPTED THE CONCLUSIONS OF HIS STAFF WHICH CALL FOR THE MEDIUM-TERM EXPANSION OF THE EXISTING SYSTEM USING LOCALLY-PRODUCED ELECTRO-MECHANICAL SWITCHING WHILE INITIATING A RESEARCH AND DEVELOPMENT EFFORT TO DEVELOP DE NOVO AND ELECTRONIC SWITCHING DESIGN IN COUNTRY. HIS STAFF HAS ADAMANTLY CHALLENGED COST ESTIMATES FROM GTE AND DATA PREPARED BY EPB STAFFERS.

3. THE ISSUE COMES DOWN TO ONE OF ECONOMICS. THE ECONOMIC PLANNING BOARD BELIEVES THE MINISTRY OF COMMUNICATIONS IS WRONG BECAUSE IT IS OVERESTIMATING THE PER-LINE INSTALLED COST OF ELECTRONIC SWITCHING WHICH IN TURN MINIMIZES THE APPARENT COST OF CONTINUING TO USE ELECTRO-MECHANICAL SYSTEMS IN THE NEXT FEW YEARS. IN ADDITION, THERE IS THE NOT INCONSIDERABLE R&D COST OF DEVELOPING A KOREAN ESS FROM SCRATCH. WE BELIEVE THAT IF THE MINISTER CAN BE SHOWN THE TRUE COSTS OF HIS POLICY, THEN HE WILL BE UNABLE TO SUSTAIN IT.

4. GTE HAS INDICATED ITS WILLINGNESS TO FINANCE AND PERFORM AN OVERALL SYSTEMS PLANNING STUDY FOR THE KOREAN GOVERNMENT AS PART OF ITS LARGER PACKAGE DEAL. SUCH A STUDY WILL BE REQUIRED. WE HAD THOUGHT TO USE THAT STUDY TO RESOLVE THE QUESTION OF THE TWO COMPETING POLICY APPROACHES TO SYSTEM EXPANSION BUT HAVE NOT BEEN ABLE TO DEVELOP A SATISFACTORY MEANS TO DO SO. THE MINISTRY OF COMMUNICATIONS CAN CHALLENGE THE CREDIBILITY OF A STUDY PERFORMED BY, OR FINANCED BY, A POTENTIAL VENDOR AND PRESUMABLY WOULD WITHHOLD TRAFFIC DATA AND OTHER ESSENTIAL INFORMATION FROM SUCH A STUDY TEAM. THIS IN TURN SEEMS TO REQUIRE A GOVERNMENT TO GOVERNMENT RELATIONSHIP.

5. WE THEREFORE PROPOSE FOR AID/W CONSIDERATION THE USE OF  
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SECTION 661 FUNDS TO FINANCE ONE OR TWO HIGH LEVEL TELEPHONE CENTRAL COMMUNICATIONS EXPERTS TO ASSIST THE KOREAN GOVERNMENT IN DEVELOPING THE DATA BASE REQUIRED FOR IT TO MAKE A RATIONAL DECISION ON WHICH POLICY TO ADAPT. THESE EXPERTS SHOULD BE OF SUFFICIENT STATURE SO THAT THERE COULD BE NO QUESTION ABOUT THE OBJECTIVITY AND AUTHORITY OF THEIR RECOMMENDATIONS. LIKEWISE, THEY SHOULD NOT BE ASSOCIATED WITH ANY EQUIPMENT SUPPLIERS SO AS TO PRESERVE THE CREDIBILITY OF THEIR FINDINGS. WE HAVE

POUCHED THE IN-HOUSE EPB PLANNING PAPER WHICH DESCRIBES THE  
SCOPE OF WORK OF THE LARGER OVERALL STUDY. WE WILL SEEK FROM  
EPB A FORMAL REQUEST FOR ASSISTANCE, INCLUDING A SCOPE OF  
WORK FOR THE SMALLER POLICY STUDY, ON RECEIVING WORD THAT  
FUNDS ARE POTENTIALLY AVAILABLE.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TELEPHONE EQUIPMENT, PROPOSALS (BID), NEGOTIATIONS  
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**Copy:** SINGLE  
**Draft Date:** 07 NOV 1975  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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